

Expected Effects on VantageScore 4.0 Credit Scores at the End of Student Loan Forbearance

June 2023

Situation Analysis/Background

At the start of the COVID-19 pandemic, the federal government stopped requiring payment on most federal student loans. The "payment pause" or "forbearance period" involved suspension of student loan payments with stalled delinquency reporting on all federal loans, an absence of interest rate for the duration of the pause and stopped collections on defaulted loans since March 2020. The forbearance period was originally set to expire in September 2020, but after several extensions, it is set to expire by August 30, 2023, due to the recent passing of the Federal Debt Ceiling law.

Based on a VantageScore analysis, we are able to estimate what impact the upcoming end to the student loan forbearance period would have on VantageScore 4.0 credit scores for student loan borrowers that have been in payment pause over the past three years, as well as for the overall U.S. consumer population.¹

VantageScore is making these key findings available for educational purposes only. Importantly, an individual's credit profile and situation is unique and the exact impact an individual's credit score will vary depending on various factors, including, among other things, a person's actual circumstances and history.²

Summary of Findings

1. SIGNIFICANT POTENTIAL IMPACT — Based on repayment behavior prior to the start of the forbearance period, VantageScore estimates that a range of scenarios are possible indicating that from 34% to 76% of borrowers may miss their next required federal student loan payment, resulting in a decline in their credit score. Depending on the scenario, the national average VantageScore could decline between 1 point and 9 points.

2. BORROWERS RESUMING PAYMENTS MAY SEE SCORE INCREASES UP TO 8 POINTS — Student loan borrowers who resume their payments on time will likely experience a score increase of up to 8 points on average.

3. BORROWERS NOT RESUMING PAYMENTS HAVE HIGHEST SCORE DECLINE — Most of the estimated score decrease – varying between 49 and 82 points on average per consumer missing a payment – will likely be experienced by borrowers who will not be resuming their student loan payments at the end of the three-year pause and for which a new delinquent event will be reported on file.

Who is Impacted?

According to the Department of Education, as of December 2022, around 40 million borrowers have been in deferment or forbearance status and collectively owe close to \$1.3 trillion in federal student loans⁴. The forbearance period has been applied to federal student loans including Direct Loans, Federal Family Education Loans (FFEL), and Perkins Loans with outstanding balances.

Which consumers are likely and unlikely to make payments on their student loans?

Likely to Pay Criteria (Consistent Credit Activities)	Scenario		
	1	2	3
Never had a missed payment on any loan during the year prior to the forbearance period (May 2019-May 2020).	✓	✓	✓
Never had a missed payment on any non-student loan account during the forbearance period (June 2020-June 2022).	✓	✓	✓
Had no external collections, no public records/bankruptcies during the forbearance period (June 2020-June 2022).	✓	✓	
Made at least one payment on the paused student loan account during the forbearance period (even if it was not required) (June 2020-June 2022).	✓		

Consumers Estimated	Scenario		
	1	2	3
Likely to pay	24% (~9.5MM)	59% (~23.5MM)	66% (~26.5MM)
Unlikely to pay	76% (~30.5MM)	41% (~16.5MM)	34% (~13.5MM)
TOTAL	100% (~40MM)	100% (~40MM)	100% (~40MM)

¹ VantageScore credit scores are generated by the nationwide consumer reporting companies (Equifax, Experian and TransUnion). VantageScore does not own or maintain credit data pertaining to specific individual consumers.

² This article is intended solely to describe the possible impact that an action may have on a credit score that is generated using the credit scoring models of VantageScore Solutions, LLC. It is not intended to provide any credit or financial advice or guidance or to recommend the taking of any specific action. The possible impacts described herein are based on hypothetical situations and the actual impact on a credit score may vary depending on various factors, including, among other things, a person's actual circumstances and history.

Expected borrower behavior after student loan forbearance period ends is modeled based on credit behavior before (May 2019 – May 2020) and/or during the pause (June 2020-June 2022). No demographics, socio-economic or macroeconomic factors were considered. The timeframes and limitations of this study may create some volatility around our estimations.

What will happen after the first month after student loan forbearance period ends?

First Month Impact on Average VantageScore 4.0

Scenario	Estimated % of consumers with delinquencies	Impact on the average VantageScore 4.0 the 1st month after the payment pause end by population			
		Likely to pay	Unlikely to pay	All paused borrowers	Overall Population
1	76%	+3 points	-82 points	-62 points	-9 points
2	41%	+8 points	-54 points	-17 points	-2 points
3	34%	+8 points	-49 points	-11 points	-1 point

Based on repayment behavior prior to the start of forbearances, VantageScore estimates that a range of scenarios are possible and significant credit score changes are likely. Most of the estimated score decrease – varying between 49 and 82 points on average per consumer missing a payment – will likely be experienced by borrowers who will not be resuming their student loan payments at the end of the three-year pause.

By contrast, student loan borrowers who resume their payments on time will likely experience a score increase of up to 8 points on average.

Overall, there could be between a 1 to 9 point decline in the national average VantageScore 4.0 credit score.

The VantageScore credit score models are sold and marketed only through individual licensing arrangements with America's three Nationwide Credit Reporting Agencies (NCRAs) - Equifax, Experian and TransUnion.

Lenders and other commercial entities interested in learning more about the VantageScore credit score models, including the VantageScore 4.0 credit score model, may contact one of the following NCRAs listed for additional assistance.

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